

CITY OF HEDRICK, IOWA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2008

CITY OF HEDRICK, IOWA

TABLE OF CONTENTS  
JUNE 30, 2008

<u>OFFICIALS</u>		<u>PAGE</u>
		1
<u>INDEPENDENT AUDITOR'S REPORT</u>		2-3
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>		4-8
<u>BASIC FINANCIAL STATEMENTS:</u>	<u>EXHIBIT</u>	
GOVERNMENT-WIDE FINANCIAL STATEMENT:		
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS	A	9-10
GOVERNMENTAL FUND FINANCIAL STATEMENT:		
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	B	11
PROPRIETARY FUND FINANCIAL STATEMENT:		
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES	C	12
NOTES TO FINANCIAL STATEMENTS		13-18
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>		
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES – BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS		19-20
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING		21
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	<u>SCHEDULE</u>	
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – NONMAJOR GOVERNMENTAL FUNDS	1	22
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES – NONMAJOR PROPRIETARY FUND	2	23
SCHEDULE OF INDEBTEDNESS	3	24-25
NOTE MATURITIES	4	26
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION – ALL GOVERNMENTAL FUNDS	5	27
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		28-29
SCHEDULE OF FINDINGS		30-31

CITY OF HEDRICK, IOWA

OFFICIALS  
JUNE 30, 2008

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
LaVerne Cavin	Mayor	December 2009
Tim O'Neill	Council Member	December 2009
Tommy Smith	Council Member	December 2009
Jeremy McKim	Council Member	December 2011
Lois Proctor	Council Member	December 2011
Robert Crawford	Council Member	December 2011
Ann Spilman	Clerk	Appointed
Tom Kintigh	Attorney	Appointed

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members  
of the City Council  
City of Hedrick, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hedrick, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Hedrick, Iowa's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at June 30, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at June 30, 2007, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hedrick, Iowa as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2009 on our consideration of the City of Hedrick, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hedrick, Iowa's basic financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
March 4, 2009

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Hedrick, Iowa, provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 1.8%, or \$6,302, from fiscal 2007 to fiscal 2008.
- Governmental disbursements decreased 13.7%, or \$46,597, in fiscal 2008 from fiscal 2007. Public works and culture and recreation disbursements decreased \$37,367 and \$23,711, respectively.
- The City's total cash basis net assets increased 44.3%, or \$87,497 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased \$55,257 and the assets of the business type activities increased by \$32,240.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets – Cash Basis. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, and 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and sewer sinking funds, considered to be major funds of the City. Also included in proprietary funds is one smaller ancillary fund that is related to the operations of the sewer fund.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$197,608 to \$285,105. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Receipts:		
Program receipts:		
Charges for service	\$ 48,590	\$ 34,456
Operating grants, contributions and restricted interest	135,162	134,393
General receipts:		
Property tax	92,247	94,699
Local option sales tax	60,761	45,863
Other general receipts	<u>12,624</u>	<u>33,671</u>
Total receipts	<u>349,384</u>	<u>343,082</u>
Disbursements:		
Public safety	21,529	21,193
Public works	132,386	156,559
Health and social services	2,017	1,425
Culture and recreation	55,999	79,710
Community and economic development	-	765
General government	<u>82,196</u>	<u>81,072</u>
Total disbursements	<u>294,127</u>	<u>340,724</u>
Increase in cash basis net assets	55,257	2,358
Cash basis net assets beginning of year	<u>(17,087)</u>	<u>(19,445)</u>
Cash basis net assets end of year	\$ <u>38,170</u>	\$ <u>(17,087)</u>

The City's total receipts for governmental activities increased by 1.8%, or \$6,302. The total cost of all programs and services decreased by \$46,597, or 13.7%, with no new programs added this year. The decrease in disbursements was primarily the result of the completion of a couple of larger public works projects during the fiscal year ended June 30, 2007.

The City's property tax receipts decreased by \$2,452 in 2008. Based on changes in the total assessed valuation, property and other City tax receipts are budgeted to increase by \$18,854 next year compared to the final 2008 budget.

The cost of all governmental activities this year was \$294,127 compared to \$340,724 last year. However, as shown in the Statement of Activities and Net Assets on pages 9 and 10, the amount taxpayers ultimately financed for these activities was only \$110,375 because some of the cost was paid by those directly benefited from the programs \$48,590 or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$135,162. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased from \$343,082 to \$349,384, principally due to increased local option sales tax received during the fiscal year ended June 30, 2008. The City paid for the remaining "public benefit" portion of governmental activities with \$92,247 in property tax (some of which could only be used for certain programs) and with other receipts, such as general entitlements.



### Changes in Cash Basis Net Assets of Business-Type Activities

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 87,866	\$ 87,242
Sewer	63,360	65,754
Operating grants, contributions and restricted interest	<u>1,101</u>	<u>1,427</u>
Total receipts	<u>152,327</u>	<u>154,423</u>
Disbursements:		
Water	61,494	114,821
Sewer	<u>58,593</u>	<u>57,907</u>
Total disbursements	<u>120,087</u>	<u>172,728</u>
Increase (decrease) in cash balance	32,240	(18,305)
Cash basis net assets beginning of year	<u>214,695</u>	<u>233,000</u>
Cash basis net assets end of year	\$ <u>246,935</u>	\$ <u>214,695</u>

Total business type activities receipts for the fiscal year were \$152,327 compared to \$154,423 last year. The cash balance increased by \$32,240 from the prior year because of a decrease in water fund expenditures. Total disbursements for the fiscal year decreased by 30.5% to a total of \$120,087.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Hedrick, Iowa completed the year, its governmental funds reported a combined fund balance of \$38,170 an increase of \$55,257 from last year's total of \$(17,087). The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$33,715 from the prior year to \$(149,697). The increase results from additional local option sales tax receipts and decreased public works expenditures.
- The Road Use Tax Fund cash balance increased by \$5,100 to \$69,424 during the fiscal year. This increase was attributable to an increase in road use tax receipts. The City intends to use this money to upgrade the condition of City roads.
- The Employee Benefits Fund cash balance increased by \$3,618 to \$79,651 during the fiscal year due to property tax receipts in excess of employee benefits paid.
- The Civic Center Fund cash balance increased by \$12,824 to \$30,357 during the fiscal year due to several large contributions received in the current year.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$26,372 to \$15,443, due primarily to a decrease in water fund disbursements.
- The Sewer Fund cash balance decreased by \$5,901 to \$113,423 due primarily to a slight increase in sewer fund disbursements and a small decrease in sewer fund receipts.
- The Sewer Sinking Fund cash balance increased \$10,508 to \$101,247 due to transfers in and interest income received.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City did not amend its budget.

## DEBT ADMINISTRATION

At June 30, 2008, the City had \$168,147 in revenue notes and other long-term debt, compared to \$209,258 last year, as shown below.

### Outstanding Debt at Year End

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Revenue notes	\$ 121,034	\$ 130,347
Anticipatory warrants	<u>47,113</u>	<u>78,911</u>
Total	\$ <u>168,147</u>	\$ <u>209,258</u>

Debt decreased as a result of principal retirement

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City has no outstanding general obligation debt and its general obligation constitutional debt limit is \$441,517.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hedrick, Iowa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the County now stands at 3.9%, versus 3.7% a year ago. This compares with the State's unemployment rate of 4.0% and the national rate of 5.7%.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.3% for fiscal year 2008 compared with the national rate of 3.7%.

These indicators were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget are \$872,292, an increase of 99.7% from the final 2008 budget. Budgeted disbursements are expected to increase by \$427,111. The City is beginning a construction project in fiscal year 2009 for approximately \$400,000 that will be funded by a USDA loan. With the exception of the construction project, the City has added no major new programs or initiatives to the 2009 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$6,745 by the close of fiscal 2009.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ann Spilman, City Clerk, 109 North Main Street, Hedrick, Iowa.

## FINANCIAL STATEMENTS

CITY OF HEDRICK, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	<u>Disbursements</u>	<u>Program Receipts</u>	
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>
Governmental activities:			
Public safety	\$ 21,529	\$ -	\$ -
Public works	132,386	41,300	71,708
Health and social services	2,017	797	-
Culture and recreation	55,999	6,493	49,874
General government	82,196	-	13,580
Total governmental activities	<u>294,127</u>	<u>48,590</u>	<u>135,162</u>
Business type activities:			
Water	61,494	87,864	2
Sewer	58,593	63,360	1,004
Non-major	-	-	97
Total business type activities	<u>120,087</u>	<u>151,224</u>	<u>1,103</u>
Total	\$ <u>414,214</u>	\$ <u>199,814</u>	\$ <u>136,265</u>

General Receipts:

Property tax levied for:

    General purposes  
 Local option sales tax  
 Other general receipts

    Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

    Streets  
 Other purposes  
 Debt service

Unrestricted:

    Total cash basis net assets

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

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Governmental Activities	Business Type Activities	Total
\$ (21,529)	\$ -	\$ (21,529)
(19,378)	-	(19,378)
(1,220)	-	(1,220)
368	-	368
<u>(68,616)</u>	<u>-</u>	<u>(68,616)</u>
<u>(110,375)</u>	<u>-</u>	<u>(110,375)</u>
-	26,372	26,372
-	5,771	5,771
-	97	97
<u>-</u>	<u>32,240</u>	<u>32,240</u>
<u>(110,375)</u>	<u>32,240</u>	<u>(78,135)</u>
92,247	-	92,247
60,761	-	60,761
<u>12,624</u>	<u>-</u>	<u>12,624</u>
<u>165,632</u>	<u>-</u>	<u>165,632</u>
55,257	32,240	87,497
<u>(17,087)</u>	<u>214,695</u>	<u>197,608</u>
\$ <u>38,170</u>	\$ <u>246,935</u>	\$ <u>285,105</u>
\$ 69,424	\$ -	\$ 69,424
110,423	-	110,423
8,020	118,069	126,089
<u>(149,697)</u>	<u>128,866</u>	<u>(20,831)</u>
\$ <u>38,170</u>	\$ <u>246,935</u>	\$ <u>285,105</u>

## CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue					
	General	Road Use Tax	Employee Benefits	Civic Center	Non-Major	Total
<b>RECEIPTS:</b>						
Property and other city taxes	\$ 156,604	\$ -	\$ 13,580	\$ -	\$ -	\$ 170,184
Licenses and permits	797	-	-	-	-	797
Use of money and property	6,493	-	-	-	-	6,493
Intergovernmental	16,598	71,708	-	-	-	88,306
Charges for service	41,300	-	-	-	-	41,300
Miscellaneous	3,444	-	-	38,860	-	42,304
Total receipts	<u>225,236</u>	<u>71,708</u>	<u>13,580</u>	<u>38,860</u>	<u>-</u>	<u>349,384</u>
<b>DISBURSEMENTS:</b>						
Operating:						
Public safety	21,529	-	-	-	-	21,529
Public works	65,778	66,608	-	-	-	132,386
Health and social services	2,017	-	-	-	-	2,017
Culture and recreation	29,963	-	-	26,036	-	55,999
General government	72,234	-	9,962	-	-	82,196
Total disbursements	<u>191,521</u>	<u>66,608</u>	<u>9,962</u>	<u>26,036</u>	<u>-</u>	<u>294,127</u>
Net change in cash balances	33,715	5,100	3,618	12,824	-	55,257
<b>CASH BALANCE - Beginning of year</b>	<u>(183,412)</u>	<u>64,324</u>	<u>76,033</u>	<u>17,533</u>	<u>8,435</u>	<u>(17,087)</u>
<b>CASH BALANCE - End of year</b>	\$ <u>(149,697)</u>	\$ <u>69,424</u>	\$ <u>79,651</u>	\$ <u>30,357</u>	\$ <u>8,435</u>	\$ <u>38,170</u>
<b>Cash Basis Fund Balances</b>						
Reserved:						
Debt service	\$ -	\$ -	\$ -	\$ -	\$ 8,020	\$ 8,020
Rehabilitation projects	-	-	-	-	415	415
Employee benefits	-	-	79,651	-	-	79,651
Street projects	-	69,424	-	-	-	69,424
Civic center	-	-	-	30,357	-	30,357
Unreserved:						
General fund	<u>(149,697)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(149,697)</u>
Total cash basis fund balances	\$ <u>(149,697)</u>	\$ <u>69,424</u>	\$ <u>79,651</u>	\$ <u>30,357</u>	\$ <u>8,435</u>	\$ <u>38,170</u>

## CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Proprietary Funds				
	<u>Water</u>	<u>Sewer</u>	<u>Sewer Sinking</u>	<u>Non-Major</u>	<u>Total</u>
<u>Operating receipts:</u>					
Charges for service	\$ 87,864	\$ 63,360	\$ -	\$ -	\$ 151,224
<u>Operating disbursements:</u>					
Business-type activities	<u>61,494</u>	<u>43,132</u>	<u>-</u>	<u>-</u>	<u>104,626</u>
Excess of operating receipts over operating disbursements	<u>26,370</u>	<u>20,228</u>	<u>-</u>	<u>-</u>	<u>46,598</u>
<u>Non-operating receipts (disbursements):</u>					
Interest on investments	2	-	1,004	97	1,103
Debt service	<u>-</u>	<u>(15,461)</u>	<u>-</u>	<u>-</u>	<u>(15,461)</u>
Total non-operating receipts (disbursements)	<u>2</u>	<u>(15,461)</u>	<u>1,004</u>	<u>97</u>	<u>(14,358)</u>
Excess of receipts over disbursements	<u>26,372</u>	<u>4,767</u>	<u>1,004</u>	<u>97</u>	<u>32,240</u>
<u>Other financing sources (uses):</u>					
Operating transfers in	-	-	9,504	1,164	10,668
Operating transfers out	<u>-</u>	<u>(10,668)</u>	<u>-</u>	<u>-</u>	<u>(10,668)</u>
Total other financing sources (uses)	<u>-</u>	<u>(10,668)</u>	<u>9,504</u>	<u>1,164</u>	<u>-</u>
Net change in cash balances	26,372	(5,901)	10,508	1,261	32,240
<u>CASH BALANCES - Beginning of year</u>	<u>(10,929)</u>	<u>119,324</u>	<u>90,739</u>	<u>15,561</u>	<u>214,695</u>
<u>CASH BALANCES - End of year</u>	<u>\$ 15,443</u>	<u>\$ 113,423</u>	<u>\$ 101,247</u>	<u>\$ 16,822</u>	<u>\$ 246,935</u>
<u>Cash Basis Fund Balances</u>					
Reserved for:					
Debt service	\$ -	\$ -	\$ 101,247	\$ 16,822	\$ 118,069
Unreserved	<u>15,443</u>	<u>113,423</u>	<u>-</u>	<u>-</u>	<u>128,866</u>
Total cash basis fund balances	<u>\$ 15,443</u>	<u>\$ 113,423</u>	<u>\$ 101,247</u>	<u>\$ 16,822</u>	<u>\$ 246,935</u>

## CITY OF HEDRICK, IOWA

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hedrick, Iowa is a political subdivision of the State of Iowa located in Keokuk County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

##### A. Reporting Entity

For financial reporting purposes, the City of Hedrick, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Hedrick, Iowa has no component units which meet the Governmental Accounting Standards Board criteria.

##### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Keokuk County Emergency Management Commission and Keokuk County Joint E911 Service Board.

##### B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.



CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as either nonmajor governmental funds or nonmajor proprietary funds

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund accounts for property tax received to be used for the payment of employee benefits of certain City employees.

The Civic Center Fund accounts for receipts and disbursements related to the City's Civic Center.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sewer Sinking Fund accounts for amounts accumulated by the City to comply with revenue note covenants

**C** Measurement Focus and Basis of Accounting

The City of Hedrick, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D** Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public works, health and social services, and culture and recreation functions

CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 2: CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2008, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district

At June 30, 2008, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificate of deposit	\$ 5,000	\$ 5,000
Savings accounts	121,504	121,504

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE 3: NOTES PAYABLE

Annual debt service requirements to maturity for the City's revenue capital loan notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 3,478	\$ 8,023
2010	3,641	7,860
2011	3,813	7,689
2012	3,992	7,509
2013	4,180	7,321
2014	4,376	7,125
2015	4,581	6,920
2016	4,798	6,703
2017	5,024	6,477
2018	5,260	6,241
2019	5,508	5,993
2020	5,767	5,734
2021	6,039	5,462
2022	6,324	5,177
2023	6,621	4,880
2024	6,934	4,567
2025	7,260	4,241
2026	7,602	3,899
2027	7,961	3,540
2028	8,337	3,164
2029	8,517	2,703
2030	1,021	263
Total	\$ <u>121,034</u>	\$ <u>121,491</u>

CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 3: NOTES PAYABLE (Continued)

The resolutions providing for the issuance of the revenue capital loan notes include the following provisions

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers to a sewer revenue reserve account shall be made until specific minimum balances have been accumulated. This account is restricted for the purpose of paying for principal and interest if the balance in the sewer sinking fund is insufficient.

NOTE 4: PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2008, was \$5,717, equal to the required contributions for the year.

NOTE 5: COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation for subsequent use, or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2008, is \$2,821. This liability has been computed based on rates of pay in effect at June 30, 2008.

NOTE 6: RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 6: RISK MANAGEMENT (Continued)

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2008 were \$13,816.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7: DEFICIT FUND BALANCE

The General Fund had a deficit fund balance of \$149,697 at June 30, 2008.

NOTE 8: ANTICIPATORY WARRANTS

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

Outstanding anticipatory warrants as of June 30, 2008 are as follows:

<u>Date Issued</u>	<u>Originally Issued</u>	<u>Balance June 30, 2007</u>	<u>Redeemed During the Current Year</u>	<u>Balance June 30, 2008</u>
September 11, 2001	\$ 75,504	\$ 58,661	\$ 11,548	\$ 47,113
September 11, 2001	21,069	19,069	19,069	-
November 5, 1999	<u>101,768</u>	<u>1,181</u>	<u>1,181</u>	-
Total	\$ <u>198,341</u>	\$ <u>78,911</u>	\$ <u>31,798</u>	\$ <u>47,113</u>

CITY OF HEDRICK, IOWA

NOTES TO FINANCIAL STATEMENTS

NOTE 9: RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials, totaling \$2,678 during the year ended June 30, 2008.

NOTE 10: INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer In:		Transfer Out:	
Enterprise:		Enterprise:	
Sewer Reserve	\$ 1,164		
Sewer Sinking	<u>9,504</u>		
	<u>\$ 10,668</u>	Sewer	<u>\$ 10,668</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF HEDRICK, IOWA

BUDGETARY COMPARISON SCHEDULE  
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2008

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Total</u>
<b><u>RECEIPTS:</u></b>			
Property and other city taxes	\$ 170,184	\$ -	\$ 170,184
Licenses and permits	797	-	797
Use of money and property	6,493	1,103	7,596
Intergovernmental	88,306	-	88,306
Charges for service	41,300	151,224	192,524
Miscellaneous	<u>42,304</u>	<u>-</u>	<u>42,304</u>
Total receipts	<u>349,384</u>	<u>152,327</u>	<u>501,711</u>
<b><u>DISBURSEMENTS:</u></b>			
Public safety	21,529	-	21,529
Public works	132,386	-	132,386
Health and social services	2,017	-	2,017
Culture and recreation	55,999	-	55,999
Community and economic development	-	-	-
General government	82,196	-	82,196
Business type activities	<u>-</u>	<u>120,087</u>	<u>120,087</u>
Total disbursements	<u>294,127</u>	<u>120,087</u>	<u>414,214</u>
Excess (deficiency) of receipts over (under) disbursements	55,257	32,240	87,497
Other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash basis net assets	55,257	32,240	87,497
<b><u>BALANCES - Beginning of year</u></b>	<u>(17,087)</u>	<u>214,695</u>	<u>197,608</u>
<b><u>BALANCES - End of year</u></b>	\$ <u>38,170</u>	\$ <u>246,935</u>	\$ <u>285,105</u>

<u>Budgeted Amounts</u>		<u>Final</u>	
<u>Original/Final</u>		<u>to Total</u>	
		<u>Variance</u>	
\$	147,912	\$	22,272
	650		147
	19,305		(11,709)
	74,643		13,663
	193,300		(776)
	<u>1,000</u>		<u>41,304</u>
	<u>436,810</u>		<u>64,901</u>
	23,100		1,571
	131,000		(1,386)
	2,000		(17)
	40,515		(15,484)
	10,000		10,000
	86,052		3,856
	<u>145,769</u>		<u>25,682</u>
	<u>438,436</u>		<u>24,222</u>
	(1,626)		89,123
	<u>10,000</u>		<u>(10,000)</u>
	8,374		79,123
	<u>244,108</u>		<u>(46,500)</u>
\$	<u>252,482</u>	\$	<u>32,623</u>

CITY OF HEDRICK, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2008

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public works, health and social services, and culture and recreation functions.



## OTHER SUPPLEMENTAL INFORMATION

CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>Capital Projects Rehab Housing</u>	<u>Debt Service</u>	<u>Total</u>
<u>RECEIPTS:</u>			
None	\$ -	\$ -	\$ -
<u>DISBURSEMENTS:</u>			
None	-	-	-
Net change in cash balances	-	-	-
<u>CASH BALANCES</u> - Beginning of year	<u>415</u>	<u>8,020</u>	<u>8,435</u>
<u>CASH BALANCES</u> - End of year	\$ <u>415</u>	\$ <u>8,020</u>	\$ <u>8,435</u>

SCHEDULE 2

CITY OF HEDRICK, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND CHANGES IN CASH BALANCES  
NONMAJOR PROPRIETARY FUND  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	<u>Sewer Reserve</u>
<u>NON-OPERATING RECEIPTS:</u>	
Interest on investments	\$ 97
<u>OTHER FINANCING SOURCES:</u>	
Operating transfer in	<u>1,164</u>
Net change in cash balances	1,261
<u>CASH BALANCES - Beginning of year</u>	<u>15,561</u>
<u>CASH BALANCES - End of year</u>	\$ <u>16,822</u>

CITY OF HEDRICK, IOWA

SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2008

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance June 30, 2007</u>	<u>Issued During Year</u>
<u>ANTICIPATORY WARRANTS:</u>					
Street construction	September 11, 2001	6 00%	\$ 75,504	\$ 58,661	\$ -
Street construction	September 11, 2001	6 00%	21,069	19,069	-
Street construction	November 5, 1999	6 00%	<u>101,768</u>	<u>1,181</u>	-
Total			\$ <u>198,341</u>	\$ <u>78,911</u>	\$ -
<u>LOAN NOTES:</u>					
Sewer construction	March 6, 1995	4 50%	\$ 125,000	\$ 80,221	\$ -
Sewer construction	March 6, 1995	4 50%	19,500	12,517	-
Sewer construction	March 6, 1995	5 25%	<u>57,000</u>	<u>37,609</u>	-
Total			\$ <u>201,500</u>	\$ <u>130,347</u>	\$ -

SCHEDULE 3

<u>Redeemed</u> <u>During</u> <u>Year</u>	<u>Balance</u> <u>June 30,</u> <u>2008</u>	<u>Interest</u> <u>Paid</u>	<u>Interest</u> <u>Due and</u> <u>Unpaid</u>
\$ 11,548	\$ 47,113	\$ 3,566	\$ -
19,069	-	4,583	-
1,181	-	53	-
<u>\$ 31,798</u>	<u>\$ 47,113</u>	<u>\$ 8,202</u>	<u>\$ -</u>
\$ 5,796	\$ 74,425	\$ 3,610	\$ -
904	11,613	563	-
2,613	34,996	1,975	-
<u>\$ 9,313</u>	<u>\$ 121,034</u>	<u>\$ 6,148</u>	<u>\$ -</u>

SCHEDULE 4CITY OF HEDRICK, IOWANOTE MATURITIESJUNE 30, 2008

Year Ending June 30	Loan Notes													
	Sewer Construction Issued March 6, 1995				Sewer Construction Issued March 6, 1995				Sewer Construction Issued March 6, 1995					
	Interest		Amount	Interest		Amount	Interest		Amount	Total				
	Rate			Rate			Rate							
2009	5 25	%	\$	925	4 50	%	\$	2,208	4 50	%	\$	345	\$	3,478
2010	5 25			973	4 50			2,307	4 50			361		3,641
2011	5 25			1,025	4 50			2,411	4 50			377		3,813
2012	5 25			1,078	4 50			2,520	4 50			394		3,992
2013	5 25			1,135	4 50			2,633	4 50			412		4,180
2014	5 25			1,194	4 50			2,752	4 50			430		4,376
2015	5 25			1,257	4 50			2,875	4 50			449		4,581
2016	5 25			1,323	4 50			3,005	4 50			470		4,798
2017	5 25			1,393	4 50			3,140	4 50			491		5,024
2018	5 25			1,466	4 50			3,281	4 50			513		5,260
2019	5 25			1,543	4 50			3,429	4 50			536		5,508
2020	5 25			1,624	4 50			3,583	4 50			560		5,767
2021	5 25			1,709	4 50			3,745	4 50			585		6,039
2022	5 25			1,799	4 50			3,913	4 50			612		6,324
2023	5 25			1,893	4 50			4,089	4 50			639		6,621
2024	5 25			1,993	4 50			4,273	4 50			668		6,934
2025	5 25			2,097	4 50			4,465	4 50			698		7,260
2026	5 25			2,207	4 50			4,666	4 50			729		7,602
2027	5 25			2,323	4 50			4,876	4 50			762		7,961
2028	5 25			2,445	4 50			5,096	4 50			796		8,337
2029	5 25			2,573	4 50			5,158	4 50			786		8,517
2030	5 25			1,021	4 50			-	4 50			-		1,021
Total			\$	34,996			\$	74,425			\$	11,613	\$	121,034

## CITY OF HEDRICK, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS

FOR THE PAST YEAR TWO YEARS

	<u>2008</u>	<u>2007</u>
<u>RECEIPTS:</u>		
Property and other city tax	\$ 170,184	\$ 166,766
Licenses and permits	797	565
Use of money and property	6,493	13,075
Intergovernmental	88,306	78,845
Charges for service	41,300	33,891
Miscellaneous	<u>42,304</u>	<u>49,940</u>
Total	\$ <u>349,384</u>	\$ <u>343,082</u>
<u>DISBURSEMENTS:</u>		
Operating:		
Public safety	\$ 21,529	\$ 7,999
Public works	132,386	169,753
Health and social services	2,017	1,425
Culture and recreation	55,999	79,710
Community and economic development	-	765
General government	<u>82,196</u>	<u>81,072</u>
Total	\$ <u>294,127</u>	\$ <u>340,724</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council  
City of Hedrick, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hedrick, Iowa as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 4, 2009. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hedrick, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Hedrick, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hedrick, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hedrick, Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Hedrick, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Hedrick, Iowa's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Hedrick, Iowa's internal control.



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hedrick, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Hedrick, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City of Hedrick, Iowa's responses, we did not audit the City of Hedrick, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hedrick, Iowa and other parties to whom the City of Hedrick, Iowa may report, including Federal awarding entities and pass-thru entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hedrick, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO P.C

Ottumwa, Iowa  
March 4, 2009

CITY OF HEDRICK, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2008

Part I: Summary of the Independent Auditor's Results

- 08-I-A Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- 08-I-B Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- 08-I-C The audit did not disclose any non-compliance which is material to the financial statements

Part II: Findings Related to the Financial Statements

Instances of Noncompliance:

No matters were noted.

Reportable Conditions:

08-II-A Segregation of Duties:

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its internal control procedures to obtain the maximum internal control possible under the circumstances.

Response - The internal policies will be reviewed on a regular basis.

Conclusion - Response accepted.

08-11-B Payroll Taxes:

Comment - Payroll taxes for all City employees were paid by the Employee Benefits Fund, without corresponding transfers from the Water or Sewer Funds.

Recommendation - The City should allocate payroll taxes to all funds that include payroll expense by way of interfund transfers.

Response - We will do so from now on.

Conclusion - Response accepted.

Part III: Other Findings Related to Statutory Reporting

- 08-III-A Certified Budget - Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the public works, health and social services, and culture and recreation functions.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, we will amend our budget prior to over expenditure.

Conclusion - Response accepted.

CITY OF HEDRICK, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2008

Part III: Other Findings Related to Statutory Reporting (Continued)

08-III-B Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

08-III-C Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

08-III-D Business Transaction – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Diane Crawford, Spouse of Council Person	Mowing	\$ 1,956
R & D Distribution of Iowa, Council Person and Wife are Owners	Supplies	722

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with R & D Distribution of Iowa and Diane Crawford do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

08-III-E Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

08-III-F Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

08-III-G Revenue Notes – The City has complied with the revenue note resolutions.

08-III-H Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

08-III-I Financial Condition – The General Fund had a deficit balance at June 30, 2008 of \$149,697.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response – We will do so.

Conclusion – Response accepted.